A

ISSUER RATING

Long-term Rating

Outlook: Observation

First rating date: 26/10/2018
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Content

Executive Summary

We maintain our credit rating of A for the Kingdom of Spain and change our outlook from "stable" to "under observation" with negative implications due to the economic scenario presented for 2020, strongly conditioned by the economic effects of the health crisis that has forced a large part of the activity to halt and whose duration is directly linked to the success of developing a suitable vaccine against the COVID-19.

Even though we expect an important contraction of the economy for 2020 (-5.5%) given the tertiary prevalence of the economy and the importance of the tourism activity, we foresee a gradual recovery of the economic activity during the second half of the year, with a rebound in 2021, although all of this is highly conditioned by the final duration of the pandemic.

Our rating considers the positive starting point of the Spanish economy in order to face this uncertain scenario, with a household and corporate debt at lower levels than the ones presented during the previous economic crisis. A persistent current account surplus, a more dynamic labour market, a context favoured by the application of ultra-expansive monetary policy and low oil prices. Also, we expect that the measures approved by the Executive (equivalent to 20% of GDP) will serve to mitigate the worst consequences of the crisis, mainly to avoid a liquidity crisis.

However, the rating is constrained by the expected deterioration of the public financial accounts that already lacked fiscal room, with a deficit that is expected to double that recorded in 2019 and a public debt that again will exceed 100% of GDP.

Structural problems affecting the dualism of the labour market remain and will be reflected in the destruction of jobs, not only by ERTEs (temporary lay-off schemes) but also by all those temporary jobs linked to tourism activities. Additionally, excessive dependence on external debt and the social aspects related to the high rate of dependence and population at risk of social exclusion are a source of concern.

Fundamentals

Strengths

- Sustained economic growth which, until the declaration of the state of alarm, had exceeded its European peers.
- Dynamic labour market, although the pace of job creation had shown signs of slowing down.
- Increase of the volume of exports and the decline in imports has sustained the current account surplus and reduced the external debt.
- A coalition Government that provides stability but will depend on government agreements with the remaining political parties in order to adopt the necessary measures.

Weaknesses

- Uncertain economic scenario that will lead to an important contraction during 2020 but with an expected rebound in 2021.
- Tourist sector, one of the main drivers of the economy, will be one of the most affected by the crisis having a direct negative impact in the labour market where a duality problem persists.
- The narrow fiscal room, which worsened in 2019, will further deteriorate the situation of public finances caused by the approved social containment measures and the ensuing economic shut-down.
- The national dependency on external debt increases its vulnerability to financial shocks.

Main Figures

	2017	2018	2019e	2020e
Real GDP (interanual change)	2.9%	2.4%	2.0%	-5.5%
GDP per capita (current, €)	25,100	25,900	26,700	-
HCPI (end of period)	1.2%	1.2%	0.8%	0.3%
Unemployment rate	17.1%	14.5%	13.7%	-
People-at-risk (% population)	26.6%	26.1%	-	-
Private debt (% GDP)	157%	153%	153%	-
Current Account Balance (% GDP)	1.8%	0.9%	1.9%	1.9%
NIIP (% GDP)	-86%	-80%	-77%	-
NPL	7.8%	5.8%	5.0%	-
Loan-to-deposits (OSR)	1,10	1,03	1,00	-
Fiscal Balance (% GDP)	-3.0%	-2.5%	-2.6%	-5.0%
Primary Balance (% GDP)	-0.5%	0.0%	-0.1%	-
Public Debt (% GDP)	98.6%	97.6%	97.%	103%

Sources: INE, BdE, Eurostat, Ministry of Finance, European Commission, IMF, OCDE and Axesor.

Outlook

We change the outlook of our rating from “stable” to “under observation” with negative implications given the uncertainty surrounding the current health crisis. Although we expect that the numerous stimulus measures approved by the government will have a positive effect in containing the most negative effects, especially in terms of a liquidity shock, many of these measures have yet to be implemented by the Executive in terms of social aid, support to affected sectors and the self-employed, among others.

In addition, the economic scenarios outlined for the coming years are drafted in a context of uncertainty, the main one being the duration that the pandemic will have in Spain, one of the most affected countries in the world. Therefore, it is foreseeable that its effects may even extend into the summer, which is particularly important for the Spanish economy because of its strong tourist sector.

Rating Committee

The Rating Committee has agreed to maintain the credit rating with a change in trend from stable to under observation given the current environment of uncertainty surrounding the 2020 economic outlook, highly dependent on the evolution of the health crisis. The effect of this shock on the labor market and public finances has also been analyzed.

1. Economic & Social Environment

The first figures for the close of 2019 show that in the last year the Spanish economy (fourth in importance in the European Union) maintained the growth path observed since the beginning of the economic recovery, with a year-on-year growth rate of 2% (in line with our forecasts). Despite its progressive slowdown, it continued to outperform its main European peers, mainly France (1.3%), Germany (0.6%) and Italy (0.2%), thanks to the strength of domestic demand, mainly from the public sector, and the slight recovery of the external sector which once again made a positive contribution to growth.

In fact, Spain surprisingly posted a fourth quarter in which the economy grew at a rate of 0.5%, exceeding our expectations of 0.4% quarter-on-quarter and contrasting with the trajectory of the euro area (0.1%), Germany (0%) and Italy (-0.1%) for the same period. This was largely explained by the recovery of the foreign sector (which left behind the negative performance of the previous quarter) and the maintenance of public consumption.

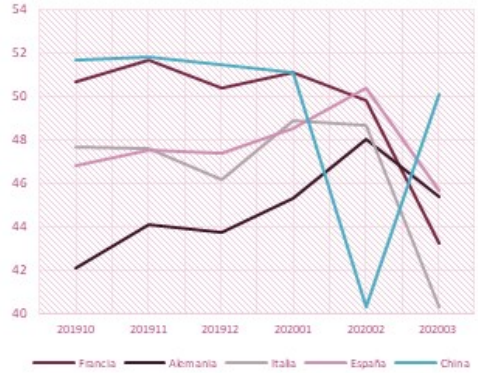
Figure 1: GDP. Interannual change (%)

Sources: INE & Axesor.

However, the health crisis caused by the COVID-19 lead the Spanish Government to declare the state of alarm. Since Spain is one of the main countries affected, we expect an uncertain economic scenario for 2020 given the tertiary nature of an economy in which the tourist sector is very present (15% of GDP) although the fact that revenues coming from this activity is split evenly between national and foreign tourists will be a mitigating factor. By contrast, seasonality will play against the tourist sector since it concentrates most of its activity mainly in the second and third quarters which, a priori, will be the periods most affected by the negative effects of this health crisis.

Even though the information available on the economic effects of this shock is still limited, in view of the first known data on the impact that the coronavirus has had on the Chinese economy (contraction of more than 20% in retail sales, 25% in investment and 13% in industrial production in just two months) and the significant drop observed in the manufacturing and services PMI, we expect a deep contraction of the economy up to -5,5% in 2020 due to the foreseeable extension of its negative effects towards the summer season. This scenario is still conditioned by the significant uncertainties surrounding forecasts that are very sensitive to the real length of this health crisis and the confinement measures that accompany it and their recent reinforcement by limiting all physical economic activity except for those defined as essential by the Royal Decree-Law that approved the state of alarm.

Figure 2: Manufacturing PMI. International Comparison



Sources: Ministerio of Finance and Axesor.

Figure3: Services PMI. International Comparison.

Sources: Ministry of Finance and Axesor.

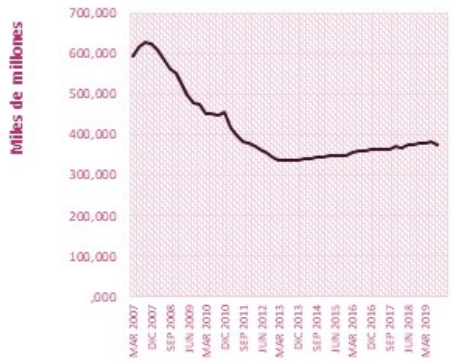
However, at the present time we understand this situation as a one-off economic shock that does not affect our credit rating of A but makes us change the outlook from “stable” to “under observation” with negative implications. We expect a progressive recovery as of the second half of the year and a significant upturn in activity by 2021 that could even exceed 5.9%, although this rate would be insufficient to compensate for the growth lost in 2020 (a year for which we initially had expected a 1.7% growth).

This rebound would be explained by the materialization of the pent-up demand during the health crisis period (a hypothesis that is based necessarily on the maintenance of the levels of disposable income, employment and consumer confidence), in addition to the tailwinds of the ultra-expansive monetary and fiscal policies, and oil prices at historical minimum levels that especially benefit an economy whose dependence on energy imports reaches 71.4% of total consumption.

The package of exceptional measures announced by the Government (see section Fiscal Balance, Debt and Liquidity) to contain the negative economic effects of this health crisis rose to an amount of 200 billion euros (20% of the GDP). Of this aid package, 100 billion euros include state guarantees that cover new financing operations for SMEs, in addition to 14 billion in tax deferrals that ultimately seek to avoid liquidity strains that could threaten the viability of companies that are currently sufficiently solvent to continue their activity. However, we believe that these measures could prove insufficient if the period of confinement and the shut down of activity ends up being longer than initially planned.

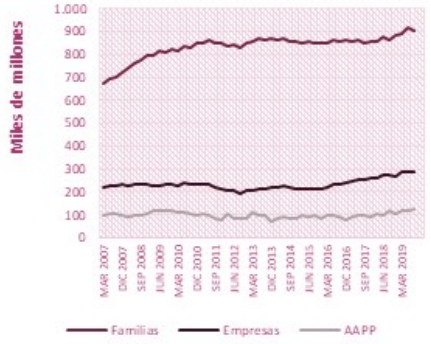
The announced line of guarantees is significantly lower than those approved by France (300 billion euros), Italy (350 billion euros), the United Kingdom (330 billion euros) and Germany (unlimited, although with a limit of 90% of the nominal amount of the financing). Therefore, it is foreseeable that this amount could finally be increased if necessary, especially considering that at the end of the third quarter of 2019, commercial credit of non-financial companies reached 376 billion euros and that this position could be negatively affected in the event of a crisis of confidence among companies that would end up triggering a liquidity shock.

Figure 4: Commercial credit. Non-financial companies



Sources: Bank of Spain and Axesor

Figure 5: Cash. Trend.



Sources: Bank of Spain and Axesor

In light of this situation, Axesor Rating highlights that non-financial companies and families are in a better position to face this economic situation compared to the financial crisis of 2008. They hold cash and deposits that are at their highest levels in recent years, mainly in the case of households, and sustain a debt burden (loans and debt issues) far smaller than 2009 levels.

We expect the economic shock of these months to have a special impact on the labor market, we believe that channeling it through temporary lay-off schemes (ERTEs) will prevent a rise in the unemployment rate to levels similar to those experienced by the Spanish economy during the hardest years of the last economic crisis (when it exceeded 27%). These schemes allow workers to receive unemployment benefits without having to register as job seekers.

In addition to its impact on public finances, which will be discussed later, its effect on the capacity to create jobs will certainly be offset, at least during the months when the health crisis is spreading.

One of the main expected effects of this shock is the drop in the disposable income of workers affected by ERTEs. Although many companies have announced contributions that will complement the unemployment benefit up to 100% of their worker's salary, we understand that these measures are conditioned by the company's capacity to resist a health crisis that may end up lasting longer than initially contemplated. Therefore, we believe that the adoption of tax moratoria and deferrals is appropriate to avoid household liquidity pressures that could eventually negatively affect the ability to repay their financial obligations.

Finally, our credit rating of A with an "under observation" outlook considers the adequate diversification of the economy and the positive evolution of wealth per inhabitant observed over the last few years (still below the EU average). Despite this growing convergence in terms of GDP per inhabitant, it continues to be below the EU average (around 86%), a situation that could worsen if the consequences of the health crisis end up affecting the Spanish and Italian economies to a greater extent, a situation that would in any case be partially offset by the rebound effect we expect to see in 2021.

Aside from this, the dependency rate, calculated as the population under 16 and over 65 among the active population, closed 2019 at around 54.3%, one of the highest in the European Union, a situation that will continue to limit the future growth potential of the Spanish economy. Once again, we warn about the level of population at risk of exclusion (26.1%) which could even worsen as a result of this economic situation.

2. External Sector

Our rating of A with an "under observation" outlook highlights the dynamism of the external sector during the economic recovery, with a positive evolution of exports due to the gain in competitiveness brought about by structural reforms and the greater international openness of the corporate sector during the hardest years of the 2018 economic crisis.

However, the trade tensions that adversely affected trade during 2018 undermined the economy's export potential, which, along with a surge in imports to respond to the strength of domestic demand, led to a negative contribution to growth of almost 30 bps.

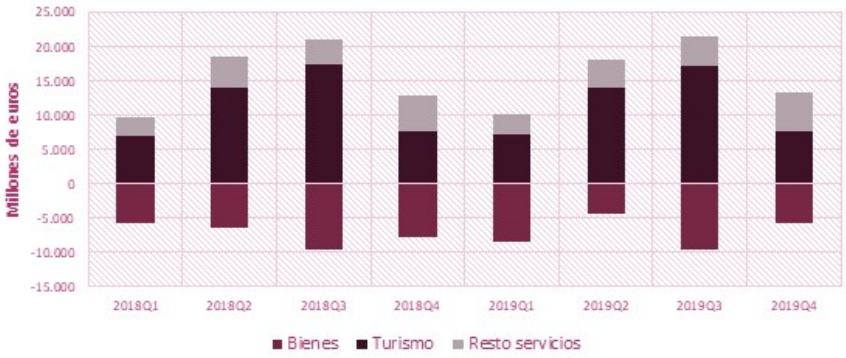
By contrast, in 2019 the easing of these geopolitical tensions led to a change of trend, with the external sector contributing almost 40 bps to growth due to the recovery of exports (+2.3% year-on-year) and a slower growth of imports (+1.2% year-on-year).

Actually, the first data available for 2020 indicate that this trend has been maintained, with exports and imports of goods increasing by 2.1% and 2.2%, respectively, compared to the previous month, although imports are still weak compared to the same period last year, with a fall of 3.9%.

Food, capital goods and chemicals activities would have concentrated most of the exports during the beginning of the year, mainly to the European Union with whom it maintained a trade surplus.

Axesor Rating underlines the persistence of the current account surplus that we have been observing since the beginning of the economic recovery, undoubtedly one of the differentiating factors of the current period of expansion, and which at the close of 2019 even improves to 1.9% of GDP, practically doubling the levels presented just twelve months earlier, which places this indicator in the high range of our rating scale.

Figure 6: Current Account Balance.



Sources: Bank of Spain and Axesor.

Delving deeper into the detail of goods and services, a significant part of the surplus was explained by the positive balance of tourism activities, mainly in the traditionally strongest quarters for the sector (2nd and 3rd), in which tourism income practically tripled the payments that nationals make abroad for the same nature of activities. Although we believe that the effects of the economic shock on the tourism sector will be negative, especially in the second quarter, we expect that the contraction of imports and the current oil price environment will be sufficient to maintain this current account surplus for yet another year.

Our credit rating takes into account that one of the main weaknesses of the Spanish economy continues to be the high volume of foreign debt, one of the highest in the European Union, because it accentuates its vulnerability to external financial shocks. However, a positive aspect to bear in mind is its continuous reduction that leads it to close the year 2019 at around 74.5% of GDP (927 billion euros), a figure that contrasts sharply with the almost 96% recorded in the worst years of the economic crisis. In fact, the balance would improve to 59.5% if we do not consider the more than 190 billion corresponding to the Bank of Spain's net position in the context of monetary policy.

3. Monetary Policy and Financial Sector

Our credit rating of A under observation is supported by the positive environment that the expansionary monetary policy is having on the Spanish economy, a situation that we expect to continue in the coming years in view of the extension of the asset programme announced at the end of last year and the new liquidity measures that have been approved during this first quarter of the year, mainly those aimed at mitigating the effects of the economic shock that could be caused by COVID-19, a 750 billion euro package that, among other measures, will be used to purchase sovereign bonds.

This mechanism announced by the ECB will, as we observed during the last economic crisis, help to avoid a destabilization of the sovereign risk premium on the debt of the most affected countries, so we do not foresee a significant upturn of the risk premium that could affect the government's costs of financing its budget deficit, at least in the short term.

In the international arena, movements of a similar nature have been made by other central banks, including the Federal Reserve (Fed) that has cut rates and injected liquidity; the Bank of England (BoE) that has also lowered interest rates and reduced the cushion of additional capital to encourage credit; and a coordinated action among the central banks of Canada, Japan, Switzerland, the Fed, the ECB and the BoE to provide liquidity through a dollar swap mechanism.

The ECB's mandate to keep inflation at around 2% is another important issue. In the case of Spain, it closed 2019 at around 0.9%, a situation that we do not expect to be corrected this year, when it could even fall to 0.3% depending on the evolution of the health crisis. Despite the lack of progress in terms of reaching the target inflation, the central bank's independence and credibility are a positive in our rating.

Regarding the financial sector, Axesor rating highlights its remarkable improvement compared to the situation it faced after the financial crisis in 2008, with a more capitalized and solvent banking sector that is better poised to deal with the shock caused by the current health crisis. The sector continues to suffer low profitability levels that are forcing the entities to reassess their business models towards activities that promote income generation, in addition to the pending challenges of adapting to new regulations, technological changes and sustainable finance.

This situation is not favoured by the current negative interest rate environment as the Spanish banking sector’s return on assets for the first nine months of 2019 was barely 0.5% and net interest income at consolidated level was 50% lower than in 2008, although it is slightly higher than the European average.

Despite this, it is worth noting that the risk profile of Spanish banks continues to improve, with an NPL ratio that fell to 5% in November 2019 and coverage levels that remained at 61% at the same date.

Although we expect that the current environment of uncertainty may end up negatively affecting the evolution of non-performing loans, we understand that the current starting point of the banking industry is stronger than at the start of the last financial crisis. In addition, we value positively the measures adopted by the Government and financial institutions to mitigate the effects of this situation, mainly through the moratorium on residential and office mortgage payments for households and the self-employed, as well as the new proposal for consumer loans. In addition, the Government has provided guarantees of 100 billion euros to cover up to 80% of each new financing operation.

The moratorium, which will be effective for 3 months with the possibility of an extension by the Council of Ministers, is intended for those citizens whose situation has become economically vulnerable.

The conditions to be eligible for this moratorium are the loss of employment or substantial loss of income for entrepreneurs or self-employed professionals, that the last monthly income of those that are applying for aid do not exceed 3 times the Public Income Index adjusted for certain characteristics of the family unit, that the mortgage payment plus basic expenses and supplies exceed 35% of the net income of the family unit and that, as a result of the health emergency, the family unit has experienced a significant alteration in its economic circumstances. All these assumptions must be satisfied jointly, as reflected in Royal Decree Law 11/2020, approved on 31 March.

Finally, our credit rating takes into account the improvement in liquidity of the banking sector, which has a 100% LTD ratio as of November 2019 compared to 123% in 2013, and in capitalization, which is above the levels required by the regulator but below the levels presented by its European peers.

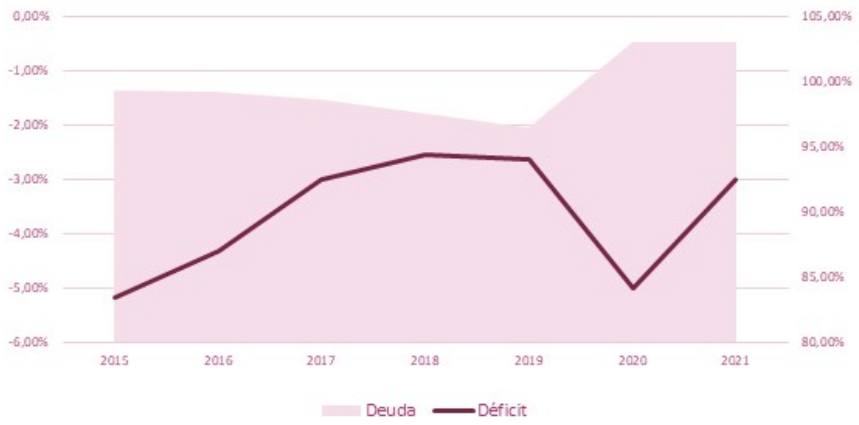
In fact, the average CET1 for Spanish banks closed 2019 at around 13.4% compared to 16.2% for Europe, a difference that would be partly explained by the reduced use of advanced internal risk models that would benefit the calculation of risk-weighted assets. However, in terms of leverage, the situation is comparatively better at around 5.3% compared to 5%.

The ECB's reaction to the coronavirus crisis in this regard has been to ease capital requirements by allowing institutions to operate temporarily below their current requirements with the ultimate aim of boosting credit, a policy that will significantly benefit Spanish Banks.

4. Fiscal Balance, Debt and Liquidity

Our credit rating of A under observation considers the fiscal consolidation effort undertaken since the beginning of the economic recovery, mainly in the years 2013 and 2014, even though the shift in the trend observed in 2019 is worrying. For the first time since the beginning of the economic recovery, the general government deficit has increased to 2.64% of GDP (+0.1%), -32,904 million euros, which exceeds our forecasts of 2.3% of GDP in our last report.

Figure 7: Fiscal Balance (left axis) y public debt (right axis). Trend

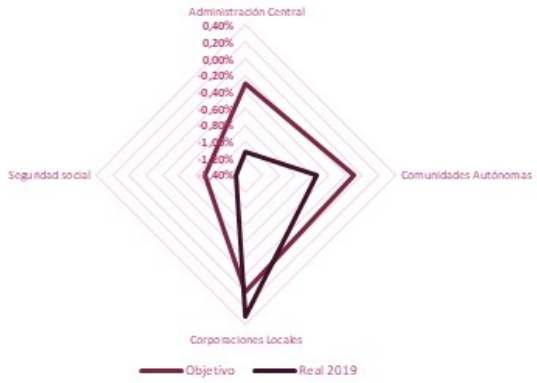


Sources: Bank of Spain, Ministy of Finance and Axesor

Despite being within the limits allowed by the Maastricht Treaty (3% limit), we should not forget that this figure represents a non-fulfilment of the objectives agreed with the European authorities, which requested an additional adjustment of 0.6% with respect to the levels presented in 2018, the year in which the effective exit of the corrective arm of the European Commission took place.

In terms of institutions, both the deterioration of regional public finances, whose deficit increased to 0.55% compared to 0.28% in the previous year (without considering the effect that VAT for the second half of the year was not transferred to the regional governments by the central government, the deficit would have been 0.34% of GDP), and the lower surplus of local corporations (0,31% compared to 0.55% in the previous year), are the main reasons for this deterioration of the overall deficit. On the other hand, in spite of the improvement in the financial position of the social security system, there are grounds for concern since it accounted for almost half of the year's deficit (1.29%), which underscores the need to implement structural reforms to address this situation. For its part, the Central Administration closed with an improvement to -1.12% of GDP (2018: -1.32%).

Figure 8: Fiscal Balance objectives.



Sources: Ministry of Finance and Axesor.

Specifically, in 2019 the central government's non-financial resources increased by 2.6% to 218,862 million euros, an increase of 5,494 million euros that was sufficient to cover an increase in non-financial expenses of more than 3,471 million euros, mainly due to higher salaries and social benefits, in addition to higher current transfers to the rest of the territorial entities.

However, Axesor Rating stresses that this reduction in the deficit over GDP is mainly explained by the positive effect of the high rates of GDP growth recorded over the years. Since 2017, the deficit of the general government in absolute terms has hardly been reduced by more than 2 billion euros, with a primary balance that continues to be negative (around -0.1% of GDP) despite the favorable economic environment previously described.

In order to counteract the negative effects of the health crisis on the Spanish economy, the Government has approved a package of measures for a total amount of 200 billion euros, of which 117 billion will be provided by the public sector and the remaining 83 billion by the private sector.

Out of the 117 billion from the public sector, 100 billion represent a line of guarantees for financing operations for SMEs (covering 80% of the nominal amount of the operations), 10 billion are for financing operations authorized by the ICO and 2 billion are guarantees given by CESCE to cover trade credit guarantee operations. The remaining amount includes social measures in addition to those approved a few days earlier by another Royal Decree for an amount of 18 billion euros, which included 3.8 billion euros for additional health expenditures required to face COVID-19.

In view of this scenario marked by a high degree of uncertainty, we estimate that in 2020 the government budget balance will once again increase to levels that could even exceed 5% of GDP, a situation that could worsen considering the execution of guarantees that could occur, in addition to the real fall in tax revenues caused by a halt in the economic activity, effects that are difficult to quantify but which will undoubtedly have a significant impact on the volume of public debt.

Nonetheless, it is worth noting that this increase in expenditure will not represent a breach of the fiscal rules following the agreement reached by ECOFIN to postpone the application of the fiscal rule for six quarters, which ultimately means that fiscal consolidation would not begin until 2022.

Although our rating considers the trend of public debt reduction observed during the period of economic recovery, largely explained by the impact of economic growth and not by a reduction of the deficit amount, we expect that the exceptional measures approved will once again push public debt to thresholds that would again exceed 100% of GDP. However, the expected economic recovery in 2021 would stabilize these debt levels, which would nevertheless remain higher than those recorded in 2019 (98% of GDP).

Even so, we again highlight the significant volume of annual budgetary resources allocated to meet the financial costs of the debt, almost 7.3% of the national budget, a situation which represents a future uncertainty considering the high volume of Spain's public debt, one of the highest in the OECD.

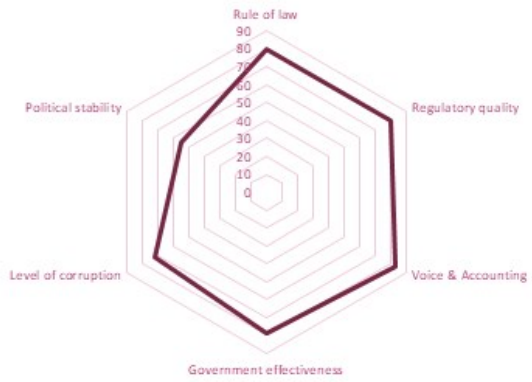
5. Institutional framework and government

We maintain the A rating under observation based on Spain's solid institutional framework, which is reinforced by its membership of the European Union and its growing leadership position within the European institutions, with a decision-making axis that, after the United Kingdom's departure, is expected to pass through Berlin, Paris and Madrid..

The presence of supervision and control mechanisms is a guarantee for the proper development of economic relations, occupying the first positions in the different governance indicators of the World Bank.

In addition, our credit rating of A under observation takes into account the recent coalition government, the first in Spain's recent history, formed by the PSOE and PODEMOS, which provides stability to the legislature, though some support from the other political parties will be required to approve certain policies, as evidenced by the recent approval of the budgetary stability objectives and the stability path for the period between 2021 and 2023. On the negative side, the current health crisis has brought parliamentary activity to a standstill and the approval of the general budget for 2020 is still pending, meaning that the the 2017 Budget had to be extended once again.

Figure 9: Governance indicators



Sources: World Bank and Axesor

6. Environmental, Social & Governance

As we have reflected in previous reports, we value positively the path followed by Spain to successfully achieve the Sustainable Development Objectives and Agenda 2030, being especially remarkable the first issue of green bonds made by the Instituto de Crédito Oficial in the first half of 2019 in an amount of 500 million euros, which followed other issues made by the Community of Madrid, Navarra or Andalusia, among others.

In this regard, it is important to highlight the incorporation of Spain to the 2030 Agenda for the promotion of inclusive economic growth and the reduction of inequalities, in addition to the appointment of a High Commissioner for the Agenda of 2030, a Sustainable Development Council and, recently, the Joint Commission in the Courts for its follow-up.

However, we want to emphasize the negative effects that political instability is having on the fulfilment of the objectives established for each year. In fact, the Spanish Strategy for Sustainable Development and the Law on Climate Change and Ecological Transition are pending, as well as the necessary resources within the General State Budgets for its achievement.

Likewise, this delay can be observed in the evolution of the SDG compliance until 2018, especially in such important objectives as poverty reduction (objective 1), education (objective 4), gender equality (objective 5), inclusive economic growth (objective 8) or the reduction of inequalities (objective 10), although it is true to point out that in the vast majority of cases there are improvements with respect to 2015 (base year).

7. Annexes

International comparison

	Date	Spain (A / under observation)	Germany	France	Italy	Portugal (BBB+ / Stable)
Macroeconomic environment						
Nominal GDP (thousand mil. euros)	2019	1,245	3,436	2,420	1,787	132
Real GDP (% interannual change)	2019	2%	0.6%	1.3%	0.3%	4.4%
PIB per capita (euros)	2019	26,680	41,480	37,330	29,611	27,233
Current Account Balance	2019	1.9%	7.1%	-0.8%	3.0%	9.7%
NIIP (% GDP)	2019	-77%	68%	-25%	-3%	-101%
HCPI	2019	0.8%	1.1%	1.3%	0.2%	1.5%
Unemployment rate	2019	14.1%	5.0%	8.5%	9.9%	3.4%
People-at-risk	2018	26.1%	18.7%	17.4%	27.3%	21.6%
Population (million)	2019	46.4	83.0	64.6	60.4	10.3
Competitiveness (rank)	2020	23	7	15	30	34
Happiness index (rank)	2019	28	17	23	30	59
Financial System (1)						
NPL	2018	3.2%	1.2%	2.5%	6.9%	9.2%
LTD	2018	0.92	0.94	1.08	0.96	0.71
ROA	2018	0.2%	0.6%	0.4%	0.4%	-0.1%
Public Sector						
Fiscal Balance (% GDP)	2019	-2.6%	1.2%	-3.1%	-2.2%	-0.1%
Structural Balance (% GDP)	2019	-3.1%	1.1%	-2.7%	-2.2%	-0.4%
Public Debt (% GDP)	2019	97.9%	59.2%	98.9%	136.2%	119.5%
Gross Financing Needs (% GDP)	2019	16.7%	3.5%	13.5%	23.7%	14.4%
Governance indicators (Rank)						
Voice and accountability	2018	83	95	88	82	89
Political stability	2018	55	67	52	58	90
Government Effectiveness	2018	79	93	92	68	86
Regulatory Quality	2018	80	95	84	74	79
Rule of law	2018	80	91	89	61	85
Control of corruption	2018	73	95	88	62	80

1) EBA.

Sources: INE, BdE, Eurostat, Ministerio de Hacienda, IMF, Banco Mundial, OCDE and Banco Central Europeo.

Determination of the rating

		++	+	+/-	-	--
15%	Macroeconomic environment		■			
15%	Social situation			■		
5%	External sector		■			
5%	Financial system				■	
5%	Monetay Policy	■				
12%	Fiscal situation		■			
13%	Debt & Liquidity			■		

		++		+		+/-		-		--	
70%	Quantitative Pillar					■					

		++		+		+/-		-		--	
30%	Qualitative Pillar		■								

Regulatory information

Sources of information

The credit rating issued in this report is unsolicited. The credit rating is based exclusively on public information, being the main sources the following:

1. Public information from public access sources, mainly official statistics institutes, central banks, and other government sources, in addition to the OECD, Eurostat, World Bank, European Central Bank and International Monetary Fund, among others.
2. Own information of Axesor Rating.

The information was thoroughly reviewed to ensure that it is valid and consistent, and is considered satisfactory. Nevertheless, Axesor Rating assumes no responsibility for the accuracy of the information and the conclusions drawn from it.

Level of the rated entity participation in the rating process

Unsolicited Credit Rating	
With Rated Entity or Related Third Party Participation	NO
With Access to Internal Documents	NO
With Access to Management	NO

Additional information

- The rating was carried out in accordance with Regulation (EC) N°1060/2009 of the European Parliament and the Council of 16 September 2009, on credit rating agencies, and in accordance with the Sovereign Rating Methodology and Outlook Methodology that can be consulted on www.axesor-rating.com/en/about-axesor/methodology and according to the Long-term Sovereign Rating scale available at www.axesor-rating.com/en/about-axesor/rating-scale.
- Axesor publishes data on the historical default rates of the rating categories, which are located in the central statistics repository CEREP, of the European Securities and Markets Authority (ESMA).
- In accordance with Article 6 (2), in conjunction with Annex I, section B (4) of the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009, it is reported that during the last 12 months axesor has provided ancillary services to related third parties of the rated entity, but not to the rated entity. However, according to our Conflict of Interest Policy, it does not involve a conflict of interest, since the aggregate sale does not exceed 5% of net turnover.
- The issued credit rating has been notified to the rated entity, and has not been modified since.

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